Chemical's TV Show, Brochure On Taxes Spark Wide Interest

Chemical Bank says a television show it produced on tax reform brought a wave of requests from consumers for information on the timely topic.

The New York bank received more than 12,000 requests for its *Financial Fitness Bulletin* on tax reform from persons who called a toll-free number given on the TV program, the "Chemical Bank Tax-Reform Special," which aired Sept. 28 on WNYW, a local New York station.

The six-page bulletin is a joint project of Chemical and the accounting firm Price Waterhouse & Co. It contains information on how the recently enacted tax reform bill will affect consumers in the areas of investments, deductions, and itemizations. It includes worksheets to help consumers compare the taxes they they will pay in 1986, 1987, and 1988.

Chemical also is giving out the pamphlets at its 250 offices in the metropolitan area. Messages on the bank's ATMs tell customers the bulletin is available. So does the bank's newsletter, *Chemical Matters,* which it mails out to credit card customers.

The Monitor

In addition to the brochure, the bank is showing a video of the television show in 70 branches.

Many banks have responded to consumer concerns over tax reform by publishing similar bulletins. Some have used the opportunity to make a sales pitch for new products that may be lucrative in the new tax environment.

For instance, home equity lines of credit are being plugged as an alternative to credit card loans whose interest, traditionally, consumers have deducted from their taxable income. The new law phases out deduction of credit card and consumer loan interest over a four-year period.

FINANCIAL FITNE$S

TAX REFORM

The Tax Reform Act will affect individuals in three key ways:

CHEMICALBANK

Ken Herz, Chemical's vice president of corporate communications, says the bulletin was produced in the spirit of community service. It refrains from plugging Chemical products, he says.

"New Yorkers are skeptical," he adds. "We wouldn't get away with it to be self-serving."

The bank logo does not appear in the bulletin, except for the front and back pages.

The television show, however, featured Chemical Bank president Robert I. Lipp advising consumers to keep their individual retirement account investments despite restrictions in the new tax law.

"IRAs will still be available to 80% of the public," he said. For 1986, all taxpayers still can make an IRA contribution. About one-third of the nation's taxpayers still will qualify for the same IRA benefits as in the past when the law takes effect in 1987, he added.

Mr. Lipp also said that tax reform, although it would eliminate the deductibility of credit card interest, merely would provide banks with an alternate source of income in equity products with credit attachments. It also would steer consumers toward those products because it would be a cheaper way to borrow.

"Using credit cards as a means to borrow large sums of money will be expensive," he said. "Home equity is the answer."

Editor Raps Washington's 'Hypocrisy'

Dr. Susan Lee, senior editor of *Forbes* magazine and another panelist on the television show, objected to the idea that Washington, rather hypocritically, should control the spending and borrowing habits of Americans.

"The government is saying do as I say and not as I do. They've sent us into enormous debt, and at the same time they're saying to us, 'We're going to make up for that debt by not letting you get into debt,' " Ms. Lee said.

Others who spoke on the show included Sen. Daniel P. Moynihan, D-N.Y.; Dr. Alan Greenspan, economist; and Bob Shapiro, a partner with Price Waterhouse.

Most of the panelists agreed that tax-reform legislation, despite some flaws, was in the best interest of the country.

"So many special interests had gotten a piece of the tax code that people said, 'You'll never be able to overcome that resistance,' " said Sen. Moynihan. However, he added, "the more they said that," the more Congress said, "We've got to pass it."

Mr. Shapiro, the former chief of staff on the Congressional Joint Committee on Taxation, said that despite the loss of interest deductions on credit cards, consumer loans, and the limited allowance for individual retirement accounts and deductibility of mortgage interest, the new tax code is "a fairer system than we have now."

He added that about six million to seven million "working poor" would be taken off the tax rolls.

"For increasing numbers of Americans," Sen. Moynihan said, "the more money made the less is paid in taxes. In this law, the striking thing is that about half of the people making over $100,000 will get a very sharp tax increase because they haven't been paying taxes at all."

Chemical said the show, which the spent about $200,000 to produce, was seen by about 241,000 people, according to the ratings service Arbitron Ratings Co., New York.

— Don Munro

Rising Number of Banks Offer Mutual Funds to Customers

By PHILIP T. SUDO

NEW YORK — A new survey has found that a rising number of banks are offering mutual funds to their customers.

The study, produced by Alliance Capital Management Corp., a New York-based mutual fund firm, surveyed the marketing directors of 130 banks with $1 billion or more in assets. It was the second year in a row the firm conducted the survey, and the results showed:

- Sixty-eight percent of the respondents said they offered mutual funds, compared with 46% last year. An additional 14% said they were planning to offer funds, compared with 29% last year. Eighteen percent of the respondents said they had no plans to offer mutual funds, down from 25% in 1985.
- Fifty-five percent of the respondents classified mutual funds as a profitable product in 1986. Seventeen percent said the product was not profitable, and 16% said they did not know. Of those who said the product was not currently profitable, 45% said they expected it to be, 7% said they did not expect it to be, and 24% did not know.
- Eighty-nine percent offer mutual funds for general investment, compared with 39% last year, and 11% make them available for individual retirement accounts only, compared with 61% in 1985.

More Banks Are Offering Mutual Funds

	1986* Survey	1985** Survey
Banks currently offering funds	68%	46%
Banks planning to offer funds	14%	29%
Banks with no plans to offer funds	18%	25%

*Survey of 130 banks with assets of $1 billion or more.
**Survey of 226 banks with assets of $1 billion or more.
Source: Alliance Capital Management Corp.

As competition among financial services firms has intensified in recent years, mutual funds have become an increasingly important product for banks, primarily for defensive reasons. Brokerage houses and mutual fund management companies have lured many traditional bank customers away to funds by capitalizing on a strong stock market and declining interest rates.

Many of those customers, having become accustomed to double-digit returns from their certificates of deposit, were lured away to mutual funds — particularly government securities funds — through the individual retirement account. The mutual fund industry specifically targeted bank customers for their IRAs, using aggressive sales and promotions tactics, with the idea that once bank customers made the small investment in a fund, the company could lure a larger share of their assets into other funds.

Banks are prohibited by law from selling, underwriting, or sponsoring mutual funds, but they may "make them available" to their customers. As the Alliance Capital study indicates, many banks have begun to do so, entering joint venture agreements with outside mutual fund management companies in the belief that the customer will continue to view a bank as his or her primary financial institution, if it is the bank that introduces the customer to new products.

Any assets that a bank customer invests in mutual funds through a bank go directly to the fund sponsor; the bank

Mutual Funds: Page 32 ➡

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Affinity cards, shopping mall cards, discount-priced "no-frills" cards, and cards from new industry entrants all are converging at once, causing the shakeup. The new entrants include Discover, but others as well, including American Express, which is moving into revolving card credit.

Based on six months of painstaking research and more than 100 interviews, this study provides both revelations and analysis. It includes 38 pages on the success of affinity cards and their bullish future; discoveries about big expansions coming soon in mall cards, and important new information about Amex, Sears, Shell, no-frills vs. enhancements marketing, and the overall maturation of the credit card product.

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Text

Report of the House-Senate Conference

Continued from Page 10

come allocated to the holder thereof may not be offset by any net operating losses, regardless of who holds the interest.

The conferees intend that the regulations would take into account the value of the residual interest in relation to the regular interests, and that the regulations would not apply in cases where the value of the residual interest is at least 2% of the combined value of the regular and residual interests.

[The conferees intend that these regulations may apply in appropriate cases to residual interests issues before regulations are issued.]

The conference agreement provides that the partnership information return filed by the REMIC is to supply information relating to the daily accruals of the REMIC.

Treatment of foreign residual holders:

The conference agreement provides that in the case of a holder of a residual interest of a REMIC who is a nonresident alien individual or foreign corporation, then for purposes of sections 871(a), 881, 1441, and 1442, amounts includible in the gross income of such holder with respect to the residual interest are taken into account only when paid or otherwise distributed (or when the interest is disposed of).

[The conferees intend that withholding upon disposition of such interests is to be similar to withholding upon disposition of debt instruments that have original issue discount.]

The conference agreement also provides that under regulations, the amounts includible may be taken into account earlier than otherwise provided where necessary to prevent avoidance of tax. The conferees intend that this regulatory authority may be exercised where the residual interest in the REMIC does not have significant value (as described above).

Residual interests received in exchange for property:

In the case of a residual interest that is received in exchange for property, any excess of the issue price of the residual interest over the basis of the interest in the hands of the transferor of the property immediately after the transfer, is amortized and is included in the residual holder's income on a straight line basis over the expected life of the REMIC.

Similarly, any excess of the transferor's basis in the residual interest over

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Mutual Funds . . .

Continued from Page 31

earns only a small servicing fee. Some fund companies have complained that banks are reluctant to bring attention to the mutual funds they make available, as it only encourages disintermediation.

In fact, the Alliance Capital study found that 17% of the respondents who offer mutual funds do nothing to inform their customers that the funds are available. Of those who do inform their customers, direct mail is the most popular method (43%). Thirty-one percent use branch offices, 28% advertising, and 13% bank personnel. Multiple responses were permitted.

Alliance Capital, which offers a group of mutual funds exclusively through banks, markets the funds through the Pershing division of Donaldson, Lufkin & Jenrette Securities Corp. Both Alliance Capital and Donaldson Lufkin are subsidiaries of Equitable Life Assurance Society of the United States.

The study estimated that between April 1985 and March 1986, customers of the top 300 banks invested more than $2 billion in the mutual funds that their banks made available (excluding money market mutual funds). According to the Investment Company Institute, a Washington D.C.-based mutual fund trade group, total mutual fund sales in that period exceeded $115.4 billion. Thus, mutual fund sales through banks totaled less than 2% of the total sales for the period.

Among the survey's other findings: 57% of the respondents make load funds available, compared with 31% last year. The percentage of banks offering no-load funds dropped to 40%, from 46% in 1985. Among those planning to make funds available, 39% said they will offer a combination of load and no-load funds, while 33% will introduce no-load funds only.

A majority (63%) of the respondents make their funds available through their discount brokerage operations, followed by the investment area (23%), the self-directed IRA (18%), the trust department (9%), and the retail department (7%). ■

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American Banker

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TODAY

COMMON GLOBAL CAPITAL requirements for international banks appear to be a step closer to reality since Japan has told the International Conference of Bank Supervisors that it is proposing that its multinational banks increase their required capital to 6% of assets. In an interview at the American Bankers Association convention, Federal Deposit Insurance Corp. Chairman L. William Seidman said Japanese officials unveiled the proposal at the recent meeting of the conference..... 2

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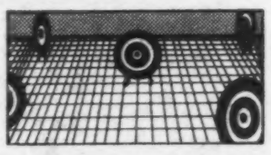

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Major Firms Mull Over Idea Of Dropping Bank Charters

May Consider Change if Powers Aren't Expanded

By ANDREW ALBERT
and ROBERT M. GARSSON

Major U.S. banks have been talking louder lately about the possibility of dropping their bank charters in order to win the same freedom that their nonbanking rivals have.

On Monday, Chase Manhattan Corp. president Thomas G. Labrecque said his company would consider giving up its bank charter if Congress did not allow banks to engage in certain corporate finance activities, such as underwriting corporate securities. Such businesses are currently off limits to commercial banks under the Glass-Steagall Act of 1933, which separates commercial banking from investment banking.

Though such a step would be considered drastic, Chase isn't the only banking institution pondering the idea. Wholesale banks competing for Wall Street's corporate finance business believe they are most restricted by their

Charters: Page 8 ➡

Sources See Pinola Still in Pursuit Of BankAmerica if Offer Is Rejected

By ROBERT LUKE
and MICHAEL A. ROBINSON

SAN FRANCISCO — First Interstate Bancorp chairman Joseph J. Pinola will continue to pursue a merger with BankAmerica Corp. even if his current $2.78 billion offer is rejected by BankAmerica's board.

That's the assessment of sources close to BankAmerica and First Interstate, one of whom said Mr. Pinola is "torn" over whether to sweeten the offer soon or wait and see if BankAmerica's fortunes decline further.

Sources close to BankAmerica added that the troubled banking giant has only the next six to nine months to prove it is on the road to recovery or it will have a difficult time justifying its independence.

"Anyone who thinks he is just going to go away doesn't know Joe Pinola," said one official close to BankAmerica who has known Mr. Pinola for years. "He is a very determined individual. He goes after what he wants, and he really believes in his own heart that this would be a marriage made in heaven."

A formal rejection of the First Interstate offer could come as early as Monday, when BankAmerica's board of directors meets in Los Angeles.

U.S. Bancorp Reveals Seafirst Plans Page 3
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First Interstate made its proposal, one it values at $18 a share, on Oct. 6. According to sources close to BankAmerica, Mr. Pinola's bid suffered a setback when BankAmerica's chief executive, Samuel H. Armacost, was forced to resign a

BankAmerica: Page 9 ➡

Rules in Offing For Loan Sales, Regulators Say

Securitization of Assets Raises Question of Risk

By ROBERT TRIGAUX
and NINA EASTON

Top banking regulators say they are working on new guidelines to govern the growing practice by banks of selling off loan assets.

The guidelines are needed to determine to what extent a bank has actually sold its loans and removed the assets from its balance sheet, said Robert L. Clarke, comptroller of the currency.

There is an "urgent" need for the loan-sale guidelines because of the increasing securitization of assets, said L. William Seidman, chairman of the Federal Deposit Insurance Corp.

"Where is the ultimate credit risk? It's getting harder to determine that," Mr. Seidman said in an interview in San Francisco Monday, where he and Mr. Clarke were attending the annual convention of the American Bankers Association.

A common agreement on the regulatory treatment of loan sales is expected soon by the Comptroller, the FDIC, and the Federal Reserve Board, though Mr. Seidman said he "doubted" the industry would see a final policy before the end of the year.

Banks sell loans frequently to reduce their assets, which in turn reduces their capital requirements. Increasingly, too, banks are securitizing their assets — that is, selling securities backed by pools of assets — to improve their

Loan Sales: Page 8 ➡

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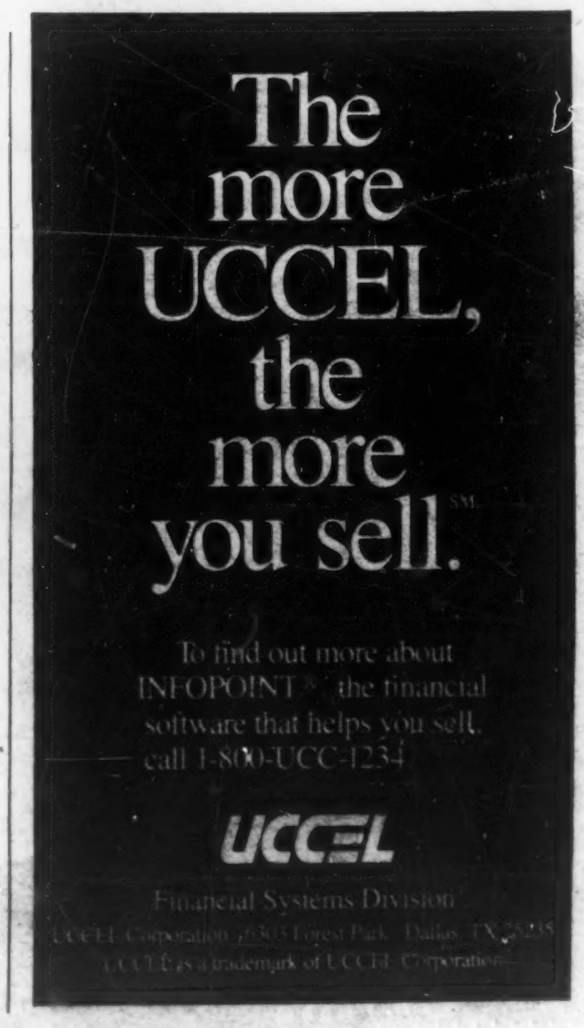
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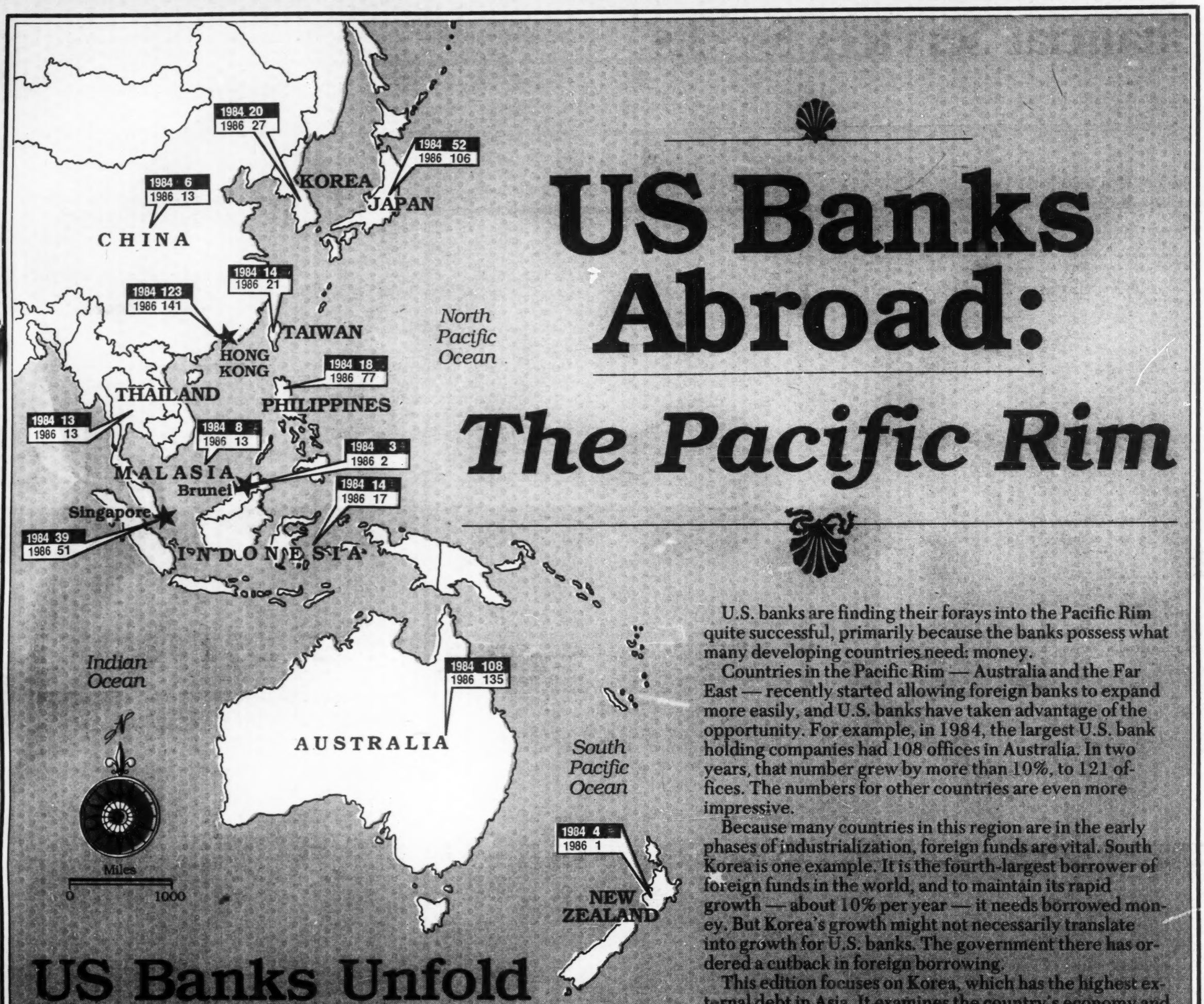

US Banks Abroad:

The Pacific Rim

U.S. banks are finding their forays into the Pacific Rim quite successful, primarily because the banks possess what many developing countries need: money.

Countries in the Pacific Rim — Australia and the Far East — recently started allowing foreign banks to expand more easily, and U.S. banks have taken advantage of the opportunity. For example, in 1984, the largest U.S. bank holding companies had 108 offices in Australia. In two years, that number grew by more than 10%, to 121 offices. The numbers for other countries are even more impressive.

Because many countries in this region are in the early phases of industrialization, foreign funds are vital. South Korea is one example. It is the fourth-largest borrower of foreign funds in the world, and to maintain its rapid growth — about 10% per year — it needs borrowed money. But Korea's growth might not necessarily translate into growth for U.S. banks. The government there has ordered a cutback in foreign borrowing.

This edition focuses on Korea, which has the highest external debt in Asia. It examines the country's economy and how it affects U.S. banks there. Saehan Merchant Banking Corp., a multinational institution in Korea, with assets of more than $325 million, also is examined, as is Citicorp's attempt to expand its credit card market in Korea.

US Banks Unfold In Large Region

Survey reveals expansion of the top 25 US bank holding companies.

By Orest Mandzy

CITICORP, the largest bank holding company in the nation, has the largest representation in the Pacific Rim, which encompasses the Far East and Australia, according to an *American Banker* survey of the 25-largest bank holding companies.

The survey's ranking of the 25-largest U.S. bank holding companies was determined by the size of the banks' assets as of December 1985.

San Francisco-based BankAmerica Corp., the nation's second-largest bank holding company, reports 46 Pacific Rim offices. Chase Manhattan Corp. and Manufacturers Hanover Corp., both based in New York, are the third- and fourth-largest bank holding companies and have 44 and 26 offices, respectively.

The last such survey, which determined operations for U.S. banking companies throughout the world, was conducted in October 1984. The Pacific Rim was chosen as the focus of this year's survey because of recent regulatory changes in such countries as Australia, Taiwan, and the Philippines. The changes have made these markets dynamic and highly volatile.

The top 25 bank holding companies were chosen to be surveyed because they comprised the bulk — 90% — of U.S. banks with a presence in this region in 1984. A holding company must own at least 50% of an office to report it as part of the company's operations.

Two years ago, these banking institutions had a total of 431 offices in this region; this year they are reporting 619 offices, an increase of 44%.

BankAmerica is reporting the largest increase — up from 18 offices in 1984 to 46 today, or an increase of 156%. This growth is partially due to the tripling of the bank's offices in Hong Kong — from three in 1984 to 12 now.

Citicorp is posting an 83% increase, reflecting expansion from 172 offices to 315 offices. The Philippines witnessed the greatest expansion of Citicorp offices in the two-year period. According to the 1984 survey, Citicorp had four offices; it now has 62 offices, representing an increase of 1,425%. (A spokesman for Citicorp said the 1984 figure may not have included all of the bank's offices.)

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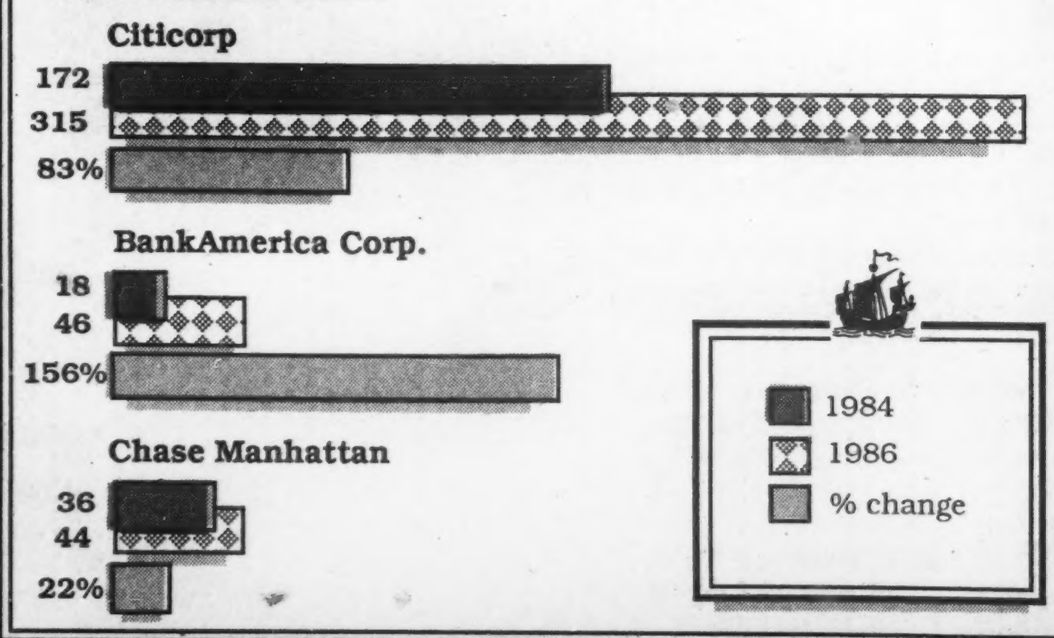
Changes in US Banks' Presence in The Pacific Rim



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No other bank holding company is reporting a significant increase in operations in the Philippines.

Australia, which had 73 Citicorp offices in 1984, now has 101 offices. This 38% increase is due to the lifting of a ban on new bank licenses and the easing of strict exchange controls by the government in February 1985.

Following relaxation of the rules, Citibank and Chase Manhattan opted to enter the market in full force.

Chase Manhattan's Australian presence has not increased significantly, but the bank started a partnership with Australian Mutual Provident Society (AMP), the country's largest insurance institution. The two opened the Chase AMP Bank Ltd., with branches in Melbourne and Sydney, in September 1985.

And Chase Manhattan and Citibank, Citicorp's wholly owned subsidiary in Australia, have undertaken efforts to link their electronic banking services with the automated teller machine networks of various Australian banks and thrifts.

Citicorp hopes to open 35 Australian branches during the next five years. But, according to a Citicorp spokesman, there has been "some change in our strategy," although he says Citicorp will continue to increase the size of its Australian operations, the bank's delivery systems will likely be changed.

BankAmerica's Bank of America, through its joint partnership with retailer Coles-Myer, also expects to increase its Australian operations. This venture is expected to give Bank of America a strong presence in retailing centers throughout Australia.

Citicorp is the only surveyed bank holding company reporting a significant increase in the number of offices it has in Japan. Over the two-year period, the bank had an increase of 182%, including expansion from 22 offices to 62 offices.

Significant increases in the number of banking offices also occurred in Hong Kong, where total U.S. banking presence rose 13%, from 123 offices to 139.

Citicorp had a 17% increase there, expanding from 47 offices in 1984 to 55 this year. Security Pacific Corp. in Los Angeles, the country's seventh-largest bank holding company, increased its number of offices in Hong Kong from four in 1984 to 21 now, or an increase of 425%.

Perhaps the countries with the most promise for U.S. banks are Taiwan and South Korea, which are trying to liberalize their banking systems.

The heightened presence of U.S. banks in these two countries is significant in terms of percentage, but not number of offices. Citicorp, for instance, had one office in Taiwan and two in Korea in 1984. This year it has six in Taiwan and four in Korea, representing increases of 600% and 100%, respectively.

U.S. banks are rebounding from countless Taiwanese bankruptcies that have led to about $600 million in bad loans. The banks expect to grow at an estimated rate of 7% in 1987, due to the rise in the value of the Japanese yen, the increased demand for exports, and lower oil prices.

The bad Taiwanese loans have led many U.S. banks to emphasize their fee-based business, as opposed to lending. The banks are reportedly concentrating on trade financing and foreign exchange dealings.

Taiwan's financial authorities have begun to loosen restrictions on foreign banking operations; they already allow consumer lending. It is rumored that foreign banks will be allowed to take deposits for periods of up to three years, as opposed to the current limit of six months.

The government of Taiwan also is expected to allow foreign bankers to open branches in places other than Taipei and to allow foreign banks to engage in foreign-exchange and trade-finance services in certain regions.

The anticipated changes promise some growth in the size of U.S. banks' operations in this country, but much depends on the conservative banking officials' opposition to deregulation of the industry.

The presence of U.S. banks in Korea is not substantial, but in 1985 the banks showed a total of $46 million in profits from their 16 offices there. This was due, in part, to low oil prices, low interest rates, and the low value of the won, Korea's currency.

Orest Mandzy is a member of American Banker's features department.

Survey Terms

In conducting the survey of U.S. banking activities in the Pacific Rim, which encompasses Australia and the Far East, *American Banker* used certain guidelines in defining different types of offices.

Branch is any office with complete banking facilities away from the head office.

Commercial bank subsidiary is a banking corporation that accepts deposits, makes short-term loans to business enterprises, and is at least 50% owned by the parent.

Merchant bank subsidiary is a bank that does not lend out its own funds but specializes in providing various financial services, such as accepting bills arising from trade, underwriting new issues, and providing advice on acquisitions, mergers, foreign exchange, portfolio management, etc.

Finance company is a company that specializes in the purchase of installment contracts from merchants who sell merchandise on the installment plan.

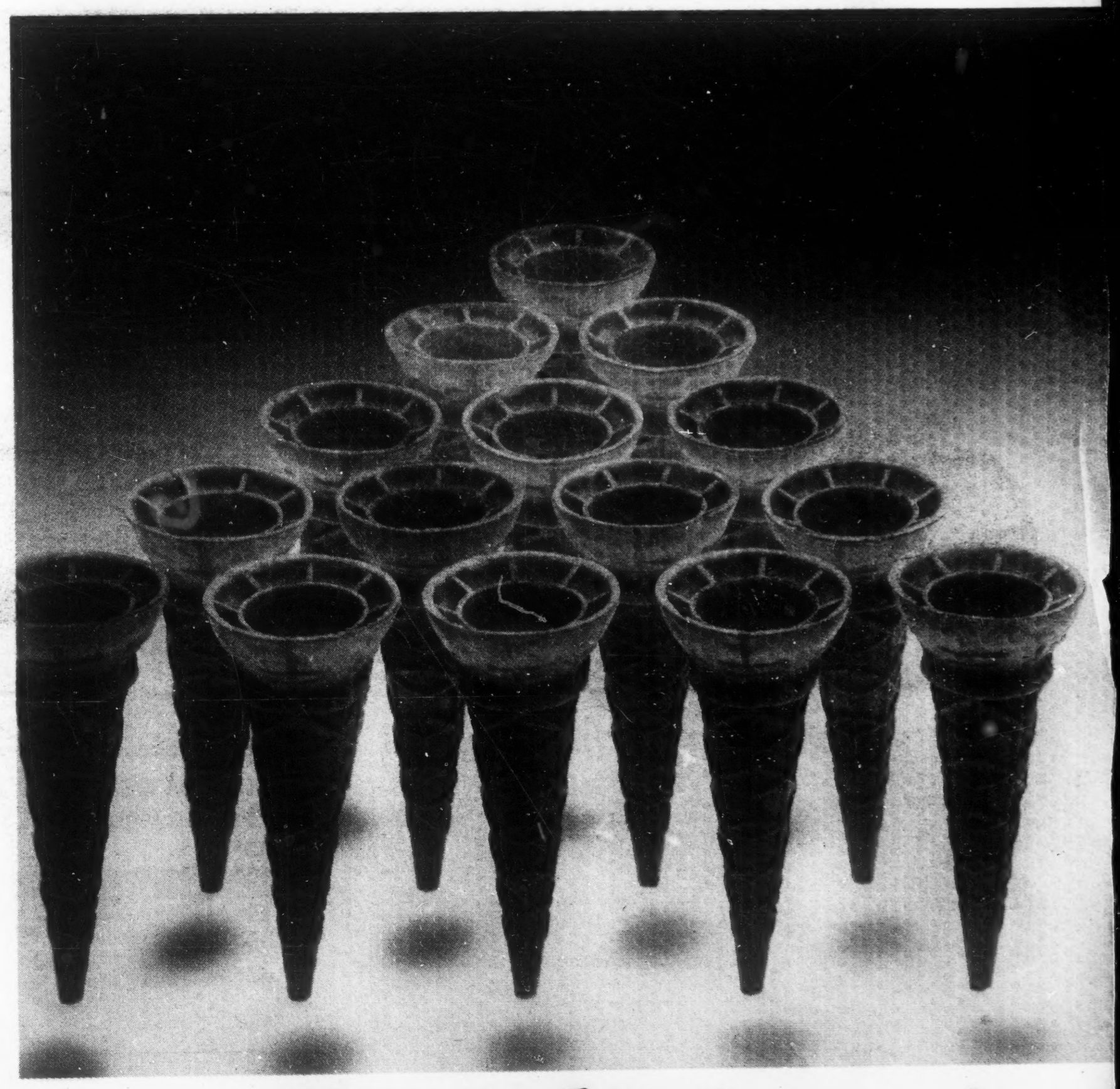
Leasing company is an asset-based lending firm in which the lender owns the physical asset to be financed. Generally, long-term fixed assets are financed by companies through leasing.

Investment company is a firm that engages in the origination, underwriting, and distribution of new issues.

Representative office is an office that does not conduct usual banking business but funnels clients to the parent.

Other is a catchall category that includes such companies as pension, management, and limited trusts; consumer financing companies; service corporations; currency units; and bank-card centers.

In conducting the survey, *American Banker* was faced with categorizing bank holding companies that have highly diversified Pacific Rim activities, as well as diversified definitions of Pacific Rim activities. Therefore, there may be discrepancies between what was reported and what is actually operated by the companies. Also, several companies' responses were different from what was reported in annual reports or 10-K forms. ■



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As a First Interstate System franchisee, you continue operating under the same management and ownership. You share a recognizable, highly respected name–one associated with nearly $50 billion in assets and over 1,000 full-service banking offices–while retaining your independence.

Specifically, you gain opportunities to expand, diversify, and take advantage of sophisticated services that would otherwise be too costly. You can benefit from advanced data processing services, mortgage banking, discount brokerage, international trading, and much more. To your customers, you become a bank that's local but far-reaching, friendly but strong, conservative but innovative.

Franchising: The proven alternative.

We laid the foundation for